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By Roland L. Madison

The Governmental Accounting Standards Board (GASB) was formed as an arm of the Financial Accounting Foundation (FAF) in April, 1984. Since that time, James Antonio, Chairman of the GASB, and members of his staff have been speaking to various professional business and accounting groups throughout the United States about the newly formed Board. The purpose of this interview is to give Mr. Antonio and the GASB national publication coverage to discuss their activities to date and several of the major topics on the Board's agenda.

Q There were rather divergent views among influential members of the National Council on Governmental Accounting (NCGA), the Council of State Governments (CSG) and the FASB, particularly by Chairman Donald Kirk, about the formation of a separate Governmental Accounting Standards Board. What events transpired that allowed these objections and problems to be alleviated and permit the formation of the GASB after several years of debate?

A In spite of what appeared to be divergent views about how and whether to create a GASB, almost all of the relevant parties believed strongly that someone would be designated to set accounting standards for state and local governments and that that someone should not be the federal government.

Recognizing the depth of these feelings, it then became a question of whether the GASB would be created totally separate from the FASB or whether the Financial Accounting Foundation would oversee both Boards.

A number of contentious points resulted in the delay of an agreement. I believe the most difficult question was that of jurisdiction. Government officials felt that a GASB should set standards for all governmental entities including those which provide services also provided by the profit and not-for-profit sectors; e.g., utilities, colleges, hospitals, and retirement systems.

FASB felt that GASB should not be created but if there was to a GASB, it should set standards only for those activites unique to government and that FASB should govern all others.

In the end, government officials were deeply committed to a GASB which would be sensitive to the needs of users of governmental financial reports as well as government accountants, auditors and officials, and were committed to the new Board having the authority to set standards for all governmental entities. They felt so strongly that many were willing to create GASB under a separate Governmental Accounting Foundation.

I believe the depth of this commitment convinced the FAF and the AICPA that jurisdiction differences were not important enough to forego the opportunity to have both Boards under a common foundation, so they adopted the jurisdiction stance of the government community.

Q Periodically, the FASB discusses the purpose, operation, and composition of the Board, as well as the due process followed in the development of standards. Would you discuss these items as they pertain to the GASB?

A The purpose of GASB is to improve governmental accounting and financial reporting. To accomplish this purpose in the state and local government environment it appears to me that several groups are critical: the FAF, the Board Members, the GASB staff, the GASAC, government officials, auditors, the investment community, and citizens-taxpayers.

The FAF trustees have the important responsibility of putting into place the people, the structure, the money and the opportunity for improved governmental accounting and financial reporting to occur and then to make changes in any of the above as necessary to assure that the opportunity results in progress.

Three government representatives were added to the trustee ranks and it appears that they have been sincerely received and fully integrated so that the trustees do in fact see their role as applicable to both FASB and GASB. The FAF is serious about its responsibilities for GASB and is committed to providing the environment within which GASB can succeed.

The FAF took great care in the selection of the initial GASB members. As a CPA, PhD, experienced auditor technician in both the private and public sectors, former accounting professor and twice elected State Auditor of Missouri, I bring a balanced background to this position which made me acceptable to almost all GASB constituents. Martin Ives, as part-time Vice-Chairman of the Board and full-time Director of Research, brings an outstanding depth of background in governmental accounting and auditing obtained through experience as a practicing CPA, as an official with the Army Audit Agency, as Deputy Controller of New York State, and as First Deputy Comptroller of the City of New York from 1976-1983, the days after the fiscal crisis.

The part-time Board members include: Phil Defliese, former Chairman and Managing Partner of Coopers and Lybrand, former Chairman of the Accounting Principles Board and currently professor of accounting, Columbia University; Elmer Staats, PhD, formerly Deputy Director of the Budget and later Comptroller General of the United States; Gary Harmer, CPA, formerly Director of Research, Utah Education Association and, since 1973, Administrator of Educational Resources, Salt Lake City School District.

Like the FASB, GASB has an advisory council — the GASAC. Unlike the FASAC, GASAC is composed of persons who represent constituent organizations. GASAC has veto power over appointments to GASB, it has fund raising responsibilities and it will share equally with the FAF in the structural review of GASB planned for 1989. All of this makes GASAC a powerful organization and allows it to operate as a key communications link between GASB and all of the organizations involved in its creation.

How the FAF, GASB, GASAC, staff and constituents work together to set standards is governed by GASB's rules of due process.

The process of setting standards is as important as the standards themselves. The process must be perceived as "fair" to all — big and little governments, CPAs, investors-creditors and citizens-taxpayers. Therefore, GASB's due process rules are structured to provide substantial opportunity for broad based involvement throughout, a public knowledge of decisions being made at each established step in the process, and a full public record of the input received from constituents and the positions taken by each GASB Board Member.

GASB was not created because government is in fact so different from the private sector that only a Governmental Accounting Standards Board could understand it. GASB was created because only a standard setter supported by government officials had any chance at all of being successful.

With this backdrop, due process is even more important to GASB as a means of involving GASB's diverse constituents in the standard setting process and as a means of assuring those early opponents of GASB of its independence in approaching the job of setting standards.

Q Please comment upon the size of the research and support staff of the GASB. To what extent does the GASB utilize the resources of the FASB since the GASB and the FASB share the same physical facilities in Stamford, Connecticut?

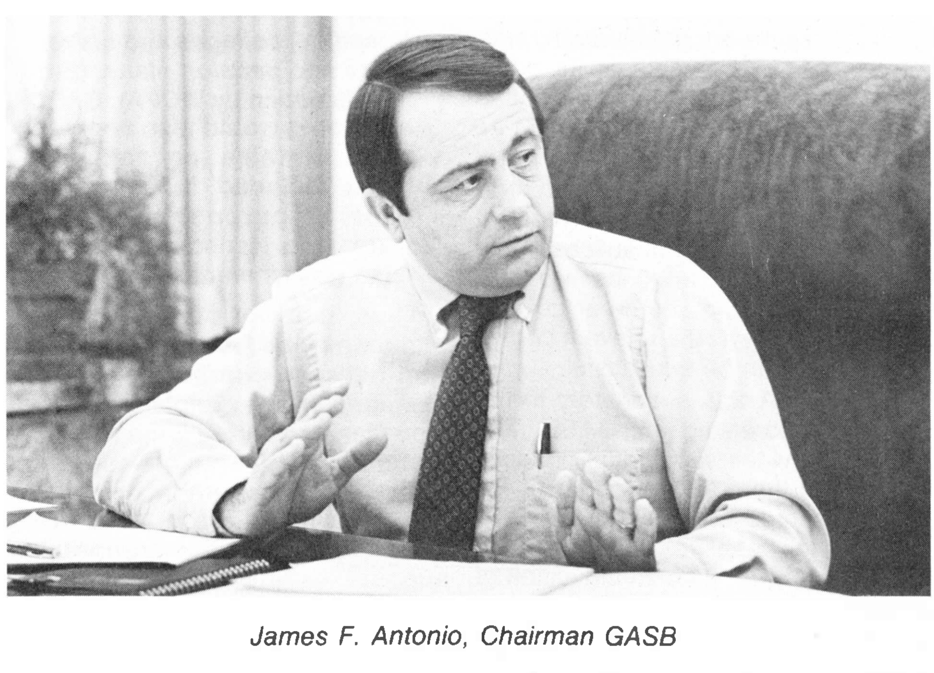
A The GASB Technical Staff currently members ten persons. It is not anticipated that it will grow significantly. The current full-time staff size is many times bigger than that of our predecessor (the National Council on Governmental Accounting), which had no full-time staff. It is a very productive staff generating just about all the work I can keep up with.

The GASB makes use of the administrative systems of the FASB (e.g. accounting, procurement, personnel, public information, and document preparation and production).

In addition, we have been provided and we have made use of several FASB project managers on specialized topics, e.g. pensions. Beyond that, we have a different constituency and somewhat different subjects which require that we develop the expertise necessary to solve our problems.

Q I would like to address the issue of the somewhat limited authoritatative status of GASB pronouncements and a related potential jurisdictional problem.

Late last year, the Auditing Standards Board (ASB) of the American Institute of CPAs issued an Interpretation of SAS No. 5, "The Meaning of 'Present Fairly in Conformity with Generally Accepted Accounting Principles' in the Independent Auditor's Report" as it pertains to pronouncements promulgated by the GASB. In brief, the Interpretation places "(a) Pronouncements of the Governmental Accounting Standards Board" at the top of a five category "hierarchy" of generally accepted accounting principles that auditors of state and local governments should follow. The Interpretation brought the auditor under Rule 202 of the AICPA Code of Ethics as follows "...the auditor should be aware that he *may* have to justify a conclusion that another treatment is generally accepted for state and local government entities *if* his work is questioned." This standard is substantially less than the authoritative status enjoyed by the FASB under Rule 203 which *prohibits* a member of the AICPA from *expressing an opinion* that financial statements conform to GAAP *if* these statements *contain a material departure* from an accounting *principle promulgated by the FASB*.



James F. Antonio, Chairman GASB

Do you not believe the GASB *must have* support equal to that of the FASB from the Institute in order to have its (the GASB) operations given the necessary recognition and credibility by the accounting profession? Also, tell us the status of *any* actions the GASB is taking to obtain that support from the Institute.

A Whether there will be substantial compliance with GASB pronouncements will be a function of a number of forces relevant to the state and local government environment.

First and foremost will be the commitment of state and local government accountants, auditors and elected officials. These groups were instrumental in GASB's creation and they made a strong commitment, financially and morally, to its success. We anticipate this commitment continuing.

Second, under single audit legislation passed by Congress in late 1984, substantially all state and local governments receiving federal fiscal assistance must be audited and the auditor, whether CPA or government official, is to report the extent to which the financial statements are presented in accordance with generally accepted accounting principles as identified by the U.S Comptroller General. The CG has indicated that the next revision of the GAO's "yellow book" will define GAAP for state and local government as the standards promulgated by the GASB.

Third, many state and local governments are audited by CPAs who are not government officials. For them, the recent ASB interpretation of SAS No. 5 clearly spells out the hierarchy with GASB pronouncements at its peak. This interpretation, which is essentially Rule 202, is helpful but it is not as powerful as Rule 203.

Is Rule 203 coverage important to GASB? Clearly the answer is yes. Is it absolutely critical to our success? Not necessarily. So long as we are recognized as the source of government GAAP by all the relevant constituents, we can be successful.

The AICPA was a signatory to the agreement creating the GASB. The AICPA provides substantial financial support to the GASB and the AICPA is represented on the GASAC. This support has been very important to us and we interpret it as an indication of strong confidence in our structure. We expect to be given an opportunity soon to be heard by the AICPA Council regarding Rule 203.

Martin Ives, Vice-Chairman

Q The ASB Interpretation, in an attempt to lend authoritative status to pronouncements of the GASB and define its boundaries, may have created a jurisdictional problem for the Board. A critical paragraph of the Interpretation states:

> **Generally accepted accounting principles applicable to separately issued general purpose financial statements of certain entities or activities in the public sector should be guided by standards of the FASB except in circumstances where the GASB has issued a pronouncement applicable to such entities or activities. *Those entities* and activities *include utilities, authorities, hospitals, colleges* and *universities* and *pension plans*. (Emphasis added by WCPA). GASB standards would also apply to those entities or activities when included in combined general purpose financial statements issued by state and local governmental units.**

Thus, is it not possible that the auditor may be faced with the selection between conflicting reporting standards? For example, where pension plan is reported upon within the statements of a state-supported educational institution or system, where two different accounting treatments may have authoritative support — one from the GASB (NCGA State No. 6), covered by Rule 202, and the other from the FASB (SFAS-35/36), covered by Rule 203. Could this be a potential jurisdictional issue? And, if so, how is it reconciled, if possible, within the limits of existing authoritative pronouncement and the ASB support status of the GASB?

A The intent in articulating the jurisdiction portion of the structural agreement creating GASB was to clearly indicate whose guidance applies to state and local governmental entities. These portions of the structural agreement have been repeated in the Interpretation and they state, as you indicate, that "GASB will establish standards for activities and transactions of state and local governmental entities and the FASB will establish standards for activities and transactions of all other entities." This means to me, if it is government, use GASB.

The intent of the paragraph which you label "critical" was to recognize the very practical problem of what should be done if the GASB has not yet pronounced on a subject relevant to a public sector entity which provides a service similar to that provided in the profit or not-for-profit sectors.

To assure an orderly transition and to not put the GASB in the position of feeling that it had to quickly issue guidance for these types of entities, it was decided to clearly direct that until GASB was able to get around to it, the FASB guidance would prevail.

Both the FASB and the GASB are opposed to entities "shopping for standards" and that's why the last paragraph of the Interpretation should also be considered: "If an established accounting principle promulgated by the GASB is relevant to the circumstances, the auditor should be aware that he may have to justify the conclusion that another treatment is generally accepted for state and local government entities if his work is questioned."

This language could not be any stronger without seeming to grant Rule 203 status to the GASB which could not be done by the Auditing Standards Board but only by the AICPA Council.

The only uncertainty that I see is whether an entity under consideration is part of state and local government. This could perhaps be difficult to determine in some joint ventures between a government and a private company. Otherwise, the identification should be quite clear and, if it is a governmental entity, GASB guidance applies if it exists, otherwise look to FASB.

Q When Statement of Financial Accounting Concept No. 4, "Objectives of Financial Reporting by Nonbusiness Organizations" (December, 1980) was issued by the Financial Accounting Standards Board, it appeared that state and local governments would be encompassed by this statement of objectives. Could you discuss why the Board essentially rejected this portion of the Conceptual Framework Project and chose to incorporate this as one of the five subparts of the Financial Reporting Project?

A The GASB neither accepts nor rejects the conclusions reached in SFAC No. 4 as regards state and local governmental entities. Some of the conclusions reached in SFAC No. 4 may indeed have applicability to financial reports issued by state and local government; others may not. In issuing SFAC No. 4, the FASB stated that it "is aware of no persuasive evidence that the objectives (set forth in SFAC No. 4) are inappropriate" to governmental units. However, there are many in government who seriously question whether the FASB fully appreciated the nature of the governmental environment or were fully aware of the needs of users of governmental financial reports. (This is a matter that goes to the heart of the issue of why the GASB was created.) The GASB decided that a statement of financial reporting objectives for state and local governmental units could not be developed without fully exploring the environmental differences between governmental entities and other entities and without undertaking a study of the needs of those who use governmental financial reports.

Q The Board issued a Discussion Memorandum titled "An Analysis of the Issues Related to Measurement Focus and Basis of Accounting — Government Funds" (February 15, 1985). The multitude of issues in this Discussion Memorandum could not be given equitable treatment as the sole topic of an entire interview, but I will raise one general question that sems to permeate the entire Memorandum.

Intuitively, I felt the Discussion Memorandum wanted to urge readership consensus toward the commercial "Flow of Economic Resources Method" generally used in the private sector and supported by the AICPA Experiment based upon accrual accounting.

Today, the government environment has changed to the extent that stewardship and fiscal accountability are prominent elements of a political manager's life. "Users" certainly need information to evaluate the efficiency of government operations and the financial condition of reporting units. The Memorandum discusses in substantial detail five alternatives (combinations) of measurement focus/basis for accounting (MF/BA). It appears that the Board believes that different reporting entities and different revenue types may require different MF/BAs for financial reporting. It is also equally apparent that the modified accrual method presently dominant (GAAFR, 1968 and NCGA Statement I, 1979) allows the nonrecognition of depreciation expense, and, as the Discussion Memorandum notes, permits many inconsistencies in the recognition of revenue and expenditures.

Accordingly, how do you see these inconsistencies being *minimized* by the selection of a *primary* approach to management focus/basis of accounting by the Board in the near future?

A First, let me assure you that the Discussion Memorandum was intended to be a neutral document. We took great pains to avoid any attempts to "lead" the readers into a particular position. The Board members have an open mind on the issue; the whole purpose of due process is to seek out the most persuasive arguments for and against a particular position.

To answer your question, we look upon the measurement focus aspect of the DM as being the threshold issue. Once we have established *what* ought to be measured in governmental funds, a consistent recognition approach can be developed. In a sense, the measurement focus aspect of the issue represents the conceptual framework within which we will develop consistent principles for recognizing specific items of revenue and expenditure. Thus, we have said, for example, that a "total financial resources measurement focus" implies accrual accounting; for a "current financial resources measurement focus," we used a consistent 60 day or one year recognition illustration. The

Philip L. Defliese

Elmer B. Staats

W. Gary Harmer

lack of consistency is one of the major problems with the existing model that we hope to overcome.

Q Instead of the commercial model, isn't the "Flow of Total Financial Resources" the best way we may realistically expect to achieve toward accrual accounting from an environment that is by nature oriented toward financial resource flows and budgetary constraints?

A I'd prefer not to answer the second part of your question until we have had a chance to evaluate the comments received from our constituency as a result of due process. I think it's fair to say, however, that there are many who believe that the "flow of total financial resources" measurement focus suits the governmental environment well.

Q Since an exposure draft is targeted for this year, could you tell us if the major differences between FASB Statement 35 and NCGA Statement 6 concerning the accounting for pensions will be reconciled? Specifically, (1) the differences between the fair value approach to investment plan asset valuations (FASB 35) versus the cost-based (or lower market) for equity securities or the amortized cost (with effective interest amortization) for fixed income securities (NCGA 6); (2) the development of the pension obligation — use of single actuarial cost method permitted; and (3) finally the inclusion (NCGA) or exclusion (FASB) of salary progression in the development of the actuarial present value of the pension obligation being reported? Do you feel that a continuation of the differences in accounting between the public and private sectors may be justified conceptually by either Board (GASB/FASB)?

A The GASB decided that the quickest way to deal with the difficult pension issues was to split the project into two parts, pension disclosure issues and other issues. The pension disclosure issues will cover two of the three matters you raise: (1) use of a single actuarial cost method and (2) use of salary progression. As to the use of a single actuarial cost method for expressing the pension benefit obligation, NCGA Statement 6 is already in accord with FASB 35 and, based upon GASB discussions to date, I believe that the GASB will reach a similar conclusion.

As to the use of salary progression, it's important to note that the recent FASB Exposure Draft on *Employers' Accounting for Pensions* embraces the concept of salary progression, even though FASB 35 does not. Discussion among GASB members to date indicates a strong preference for using salary progression in expressing the pension benefit obligation. Thus, I believe that the forthcoming GASB Exposure Draft on pension disclosures will be conceptually similar to the new FASB Exposure Draft on this issue.

As a general rule, whether it involves pensions or some other issue, I feel it is incumbent upon the standard-setting bodies to justify differences in the conclusions they reach. I would prefer not to have differences and I anticipate that there will not be many, but so long as the reasons for differences are adequately explained, I believe that our constituencies are prepared to accept them.

On behalf of The Woman CPA, *I would like to extend our appreciation to Mr. James Antonio for his cooperation and enlightening interview for our readers.* Ω

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